

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED

SEP - 4 2003

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

| | | |
|---|---|------------------|
| In the Matter of |) | |
| |) | |
| 2002 Biennial Regulatory Review – Review |) | MB Docket 02-277 |
| of the Commission’s Broadcast Ownership |) | |
| Rules and Other Rules Adopted Pursuant to |) | |
| Section 202 of the Telecommunications Act |) | |
| of 1996 |) | |
| |) | MM Docket 01-235 |
| Cross-Ownership of Broadcast Stations and |) | |
| Newspapers |) | |
| |) | MM Docket 01-317 |
| Rules and Policies Concerning Multiple |) | |
| Ownership of Radio Broadcast Stations in |) | |
| Local Markets |) | |
| |) | MM Docket 00-244 |
| Definition of Radio Markets |) | |
| |) | |
| |) | MB Docket 03-130 |
| Definition of Radio Markets for Areas Not |) | |
| Located in an Arbitron Survey Area |) | |

To: The Commission

PETITION FOR RECONSIDERATION

1. Treasure and Space Coast Radio (“TSCR”) hereby seeks reconsideration of certain limited aspects of the Commission’s Report and Order and Notice of Proposed Rulemaking (“R&O”), FCC 03-127, released July 2, 2003.¹ As set forth in detail below, TSCR applauds the Commission’s efforts to assure reasonable competitive balance in the commercial radio industry through redefinition of the concept of radio markets. However, TSCR is concerned that the

¹ The R&O was published in the Federal Register on August 5, 2003, 68 F.R. 46386 (August 5, 2003). Accordingly, this Petition is timely. See Sections 1.429(d), 1.4(b) of the Commission’s Rules.

Commission's action may not go far enough to alleviate serious problems which have plagued the industry since 1996; indeed, to a significant degree the Commission's most recent action could have the unfortunate effect of freezing those problems in place, to the ultimate detriment of the industry and the public.

2. TSCR is an entity composed of individuals who own interests in four radio stations in various communities in Florida.² "Treasure and Space Coast Radio" is an informal trade name used by them in the operation of those stations. TSCR's members are classic "small broadcasters" seeking to serve local communities with locally-oriented programming.

3. As a starting point, it is important to recognize the difficult situation in which the Commission, and the radio industry, find themselves in 2003. Prior to 1996, the Commission had maintained control over commercial radio broadcast ownership by tightly limiting the total number of stations any individual person or entity could control, both on a national *and* a local level. In that regulatory structure as of 1995, local ownership could not exceed four radio stations (two in either service) in the largest markets, and a combined audience share exceeding 25 percent (in larger markets) or 50 percent (in smaller markets) was deemed *prima facie* inconsistent with the public interest. In that constrictive structure, the concept of "market" was defined by the city-grade service contours of the commonly-owned stations. While that definition obviously created the possibility of some degree of fluidity – and even some gamesmanship by an affected licensee attempting to maximize its potential holdings – the other numerical limits significantly reduced the ill effects of any uncertainty arising from that fluidity.

² TSCR's individual principals are principals of Vero Beach Broadcasters, LLC and Vero Beach FM Radio Partnership. One of TSCR's individual participants also owns a minority interest in the licensee of four radio stations in New Jersey.

4. Then came the Telecommunications Act of 1996. In that Act Congress instructed the Commission to raise the numerical limits for local ownership and to eliminate entirely the limits for national ownership. In so doing, however, Congress deferred to the Commission with respect to the definition of “market”, and in implementing the statutorily-mandated ownership limits, the Commission failed to alter its earlier definition of that term.

5. And with that crucial failure, the Commission opened the barn door, showing the barn’s theretofore well-tethered occupants the glorious freedom of local media concentrations previously undreamed of.

6. What ensued should not have been unexpected. Consolidation swept across the industry as large groups became increasingly larger and larger. At the local level, the careful manipulation of the city-grade contours of a group owner’s stations enabled that owner to maximize its local holdings. That is, by securing one or more high-power stations (*e.g.*, 100 kW Class C AM stations or 50 kW AM stations), an owner could almost invariably guarantee that it would be entitled to the maximum number of stations in a given “local” market. The entities most able to bid up the price of such high-power stations? They were, of course, the large nationwide companies who were able to use their pre-existing market strength to muscle their way to ownership or control of stations with facilities which facilitate the domination of their respective markets. And while the Commission attempted to apply a “screen” to prevent unduly anti-competitive situations, the utility of that “screen” was, at best, limited, as the Commission in the end seemed unable to deny applications proposing concentrations of local control far beyond anything which had ever previously been deemed acceptable.

7. The result of this regulatory upheaval is the radio industry as it currently presents itself, an industry consisting of, on the one hand, a tiny number of enormous titans holding

hundreds and hundreds of stations each, with “clusters” of up to eight stations in many if not most local markets³, and, on the other hand, a smattering of small broadcasters holding at most a few stations in a couple of markets. That landscape is one of sharp disparities and tremendous competitive imbalance. Where one or two humongous operators control a vast percentage of advertising and programming content, the ability of smaller operators to compete effectively is dramatically reduced, and their ability to survive is clearly threatened. And to the extent that localism, diversity and competition – the three goals of the Commission’s ownership rules – are dependent on the continued viability of such smaller operators, those goals, and the public interest generally, are also clearly threatened.

8. Thus it was with considerable relief that TSCR – whose owners fit comfortably into *any* definition of “smaller broadcaster” – read the *R&O* and, in particular, the adoption therein of an Arbitron-based geographical re-definition of radio markets for local ownership purposes. Reliance on such an objective standard, and abandonment of the extraordinarily elastic contour-based approach, could and should lead to substantial public interest benefits.

9. Unfortunately, those benefits may not in fact be realized because of the “grandfathering” provisions of the *R&O*. That is, the Commission has recognized that many of the local ownership situations approved under the contour-based definition of market would *not* be approved under the new Arbitron/geographical definition. Rather than mandate divestiture in

³ And in a number of markets, some licensees have apparently been able to obtain local ownership or control well in excess of the prescribed limits. TSCR understands, for example, that an Arbitron/BIA market analysis of the San Diego market indicates that at least 12 stations are attributed to Clear Channel there. See Attachment A hereto (“In San Diego, Legal Quirks Help a Radio Empire”, *Wall Street Journal*, October 2, 2002, p. A1). TSCR also understands that in some markets (e.g., Sarasota, Florida, where Clear Channel owns *all* of the commercial FM stations) Clear Channel owns or controls significantly more than 90% of national revenues, and in at least one market (Sussex, New Jersey), Clear Channel owns *all* of the commercial radio stations in the market.

those situations to bring them into compliance with the new rules, however, the Commission has elected to “grandfather” such situations.

10. That decision has the unfortunate effect of freezing the largely uncompetitive industrial landscape, preserving it *ad infinitum* even though the new market definition seeks, ostensibly, to alter precisely that landscape. It is as if a homeowner, having painted his house hot pink and having then recognized that that choice was not in the public interest, then undertook a long and deliberate process to select a better color – but then, having made that alternate selection, the homeowner announces that it’s not going to use the new color to paint over the objectionable pink. Grandfathering does nothing but preserve the status quo, with all of the undesirable anti-competitive components which the new rules were presumably designed to avoid.

11. The new rules are thus a solid and impressive lock for the barn door, a lock being installed only long after the horse has permanently escaped.

12. If the ill effects of the contour-based definition of market are left in place through grandfathering, neither the Commission nor the public can realistically hope for any restoration of competitive balance in the marketplace. How, after all, could such balance be restored when the “haves” are being allowed to retain levels of ownership which the current “have-nots” are now prohibited from obtaining in the first place? In this situation the “have-nots” can *never* catch up, and the competitive imbalance will be permanent.

13. Plainly, the result permanently enthrones as dominant competitive leaders those entities which took maximum advantage of the contour-based definition. So while the new rules seem to give hope to TSCR and other smaller broadcasters, the grandfathering provision unquestionably withdraws any reason for such hope, forcing such smaller broadcasters to

That is, the Commission would, in effect, automatically waive the normal cap for stations in such markets in order to assure that one or two entities would not be protected, by the Commission's rules, from even the possibility of competition from another broadcaster with the same number of "local" stations.⁴

18. While adoption of such an automatic waiver might appear to be a step backward away from the advances which the *R&O* purported to achieve, it would still be a substantial step ahead of the practical effect of the grandfathering provision of the *R&O*. This is particularly so if the automatic waiver were made available only to small broadcasters (for example, entities with operations in only a small number of markets, perhaps five or fewer) or entities which are economically disadvantaged. In that way the prospect of increased competition within the radio market would be enhanced, as would the likelihood of increased program diversity and localism.⁵

19. The urgent need to promote effective competition cannot be understated, and even TSCR's modest proposal here would not necessarily guarantee the desired result. This is especially so in view of the broadcast-related but non-regulated areas which the largest broadcast groups also dominate. Clear Channel, for example, is reported to own over 1,000,000 "faces" in

⁴ In connection with this process, the Commission may also wish to assign different values to different classes of stations, depending on their audience reach. It is beyond dispute, for example, that a 100 kW FM station operating with a 300 meter HAAT will normally reach considerably more listeners than one kilowatt AM station. But, for purposes of the Commission's multiple ownership analysis, those two stations would be fungible. TSCR suggests that common sense and common experience dictate that it is inappropriate and ill-advised for the Commission to assume as a matter of regulatory policy that all radio stations have an essentially identical impact on competition, regardless of those stations' respective facilities.

⁵ Should an entity avail itself of this opportunity and thereby obtain control of more stations in a given market than would otherwise be allowed, upon a sale such holdings would of course be subject to all other rules applicable to all grandfathered competition in the market – although TSCR does suggest that the Commission may wish to consider affording licensees in this situation the option of selling the entire group to a small or economically disadvantaged entity.

the form of outdoor billboards, transit advertising and street furniture. In addition, Clear Channel owns and operates some 200 concert venues nationwide. And, of course, Clear Channel is present in some 248 of the top 250 radio markets (and it owns a significant interest in XM Satellite radio, the growing service delivering music by satellite nationwide). And in some markets, Clear Channel owns not only a passel of radio stations, but also *television* stations. The ability of Clear Channel to avail itself of these inter-related interests to cross-promote its own economic interests is beyond question. And small broadcasters, who do not control the high powered radio stations, the local television stations, the musical venues, or the non-broadcast advertising media, are hard-pressed to compete effectively. Since the Commission does not regulate ownership of non-broadcast media (such as billboards) or concert arenas, there is nothing that the Commission can do with regard to those elements. But when broadcast ownership comes into play, the Commission can and should take into account *all* of those factors in an effort to assure a reasonably level competitive playing field within the radio industry.⁶


20. And one last suggestion with respect to the notion of a level playing field. Where a dominant licensee owns all or most of the tower sites useful for broadcast transmitter sites in a given market, the Commission should take aggressive steps to assure that such licensees do *not*

⁶ While the Commission does not control ownership of non-broadcast media such as billboards or entertainment venues, TSCR notes that the Commission can at least consider the impact of such media in imposing limits on broadcast ownership. Thus, in assessing the level of an existing licensee's control in a particular market, the Commission may wish to treat such media (particularly if the ownership of those media in the particular market is dominant, or even substantial) as the functional equivalent of radio interests for purposes of determining the extent to which a non-dominant entity might be permitted to exceed the numerical radio ownership limits in that market. For example, if the dominant licensee in a market owns or controls 10 radio stations (*i.e.*, two more than the absolute maximum for any market) *and*, for example, 50% of the billboards *and* the dominant musical performance venue, a non-dominant entity might be permitted to acquire up to, say, 12 stations in that market. The two "extra" stations – *i.e.*, the two stations over and above the 10 owned by the dominant licensee in the market – would be justified on the basis of the dominant licensee's other in-market media interests. TSCR strongly believes that, to level the competitive playing field, the Commission must consider all factors affecting the ability of parties to effectively compete.

use the ownership of those sites to enhance the licensees' competitive position as against others in the market. As the Commission is aware, tower siting has become an often difficult process, particularly in urban and suburban areas where "not-in-my-backyard" sentiments prevent construction of new towers. The Commission, of course, already has a rule (Section 73.239) which recognizes the potential competitive importance of tower sites. TSCR urges the Commission to clearly alert all tower owners – and particularly those which happen also to be dominant broadcasters in a given market – that the manner in which they make, or don't make, their tower facilities available to competitors will be considered as a component of the evaluation of the levelness of the competitive playing field in that market.

21. Accordingly, TSCR request that the Commission reconsider its decision to "grandfather" non-compliant pre-existing ownership situations and that the Commission, instead, either (a) mandate divestiture to bring such situations into compliance or (b) automatically waive the recently-adopted local ownership limits in markets in which one or more owners already exceeds those limits, with such waivers to be capped by the level of the non-compliant operation.

Respectfully submitted,


/s/ Harry F. Cole
Harry F. Cole

Fletcher, Heald & Hildreth, P.L.C.
1300 N. 17th Street – 11th Floor
Arlington, Virginia 22209
(703) 812-0483

Counsel for Treasure and Space Coast Radio

September 4, 2003

ATTACHMENT A

Over the Borderline In San Diego, Legal Quirks Help Radio Empire

Italian Clear Channel Manages
Mexican Stations Beaming
Programs Into the Market

Using Muscle With Advertisers

By ANNA WILDE MATHEWS

SAN DIEGO—On a recent morning, radio fans here could listen to oldies station KOOL 95.7 spin Three Dog Night's "Joy to the World" or to Rock 103.5 pipe Howard Stern. On Jammin' Z90, morning team Billy Blast and Da Mizfitz interviewed comedian D.L. Hughley between hip-hop tracks. A.J. Machado, the host on pop powerhouse 93.3, joked about health hubs, while 94.1 played singer Jewel for its soft-rock audience.

Behind all these broadcasts was one company: Clear Channel Communications Inc. It controls all five stations.

They broadcast from the same glass-plated office building in north San Diego. Clear Channel also runs seven other stations broadcasting to the city, among them the leaders in sports, news and "alternative" rock. In addition to the 12 frequencies it controls here



Mike Glickenhau

Clear Channel sells the advertisements for a 13th, giving it one of the largest radio strongholds ever assembled by one company in a U.S. city.

Federal law restricts radio companies to owning eight stations in a big city such as San Diego. Clear Channel has taken advantage of an exception that allows U.S. broadcasters to operate additional stations in Mexico or Canada that serve audiences in this country—without those stations counting toward the ownership cap.

Five of Clear Channel's San Diego stations, including Jammin' Z90, are Mexican owned. Their programming and ad sales are controlled by Clear Channel employees in San Diego. Clear Channel beams programming via satellite to radio facilities in the Tijuana area. From there, the shows are broadcast back across the border to listeners in San Diego. Clear Channel says it pays the Mexican station owners a fee but declines to discuss any specifics.

The result is a particularly stark case in an era of rapid consolidation throughout the media industries. Clear Channel boasts more than 40% of the listening audience here. It controls three of the five stations with the highest ratings. And it says it collects about 55% of all revenue from radio in San Diego.

That kind of dominance can be a headache for advertisers, who say they feel compelled to do business with Clear Channel. The company says that regardless of its size, it treats ad buyers fairly.

Economies of Scale

The country's biggest radio company, with about 1,200 stations, Clear Channel says its size in San Diego allows it to enjoy economies of scale on equipment and staff. But it also argues that by making sure its stations' offerings don't overlap here, it has increased the diversity of radio programming in the city and boosted the overall audience listening to the stations it runs. The company also says it now offers advertisers many more options than they previously enjoyed, including one-stop shopping for some or all of its 13 stations.

"The public didn't always win in the old days," when more stations were stand-alone outfits, says Mike Glickenhau, a company vice president in San Diego. "We've taken away some of those old competitive juices and put them to the advantage of our community," he adds. Clear Channel, which is based in San Antonio, says it serves the public interest by, for example, offering charities more flexible alternatives than they

Please Turn to Page A8, Column 1

© 2002 Dow Jones & Company. All Rights Reserved

THE WALL STREET JOURNAL.

FRIDAY, OCTOBER 4, 2002 - VOL. CCXL NO. 68 - ★★ \$1.00

Over the Borderline: In San Diego,

Continued From First Page

have had in the past for soliciting donations and promoting good works on the company's many stations.

"Instead of 13 stations you want to murder each morning, you feel like you're part of a team," says Mr. Machado, the Clear Channel DJ. He used to face off against pop station Z90, until Clear Channel took over its programming this spring. "Competition isn't really competition anymore," Mr. Machado says. Since the company stations carefully keep their play lists distinct, he says he can spend more time improving his show, rather than worrying about which promotions or artists Z90 might feature.

Congress intended to allow more consolidation in radio when it loosened the limits on station ownership as part of a broad 1996 telecommunications-de-regulation law. Lawmakers doubled the number of stations a company could own in a single market, setting the ceiling of eight for the biggest cities. Broadcasters rushed to bulk up in desirable markets.

The goal of the change was to strengthen radio companies, many of which were weak or failing before the law shifted. Stronger broadcasters were thought more likely to offer quality programming and compete better against other media. But gaps in the legislation have allowed big companies to grab even greater control than expected in certain markets.

One of those gaps is the exception for stations in Mexico or Canada, which aren't regulated by the FCC. While a handful of other companies have also capitalized on that loophole, Clear Channel has been by far the most aggressive. San Diego, on the Mexican border, offers the prime venue for this maneuver.

In addition, the 1996 law allows companies to manage a U.S. station's advertising without that counting toward the ownership cap. American General Media Corp., based in Bakersfield, Calif., sells ads for stations it doesn't own in St. Luis Obispo, Calif., Santa Fe, N.M., and Santa Maria, Calif. It has hit its ownership limit in each of those cities.

Clear Channel follows the same pattern in some other U.S. markets where it owns as many stations as it can. In Jacksonville, Fla., the company owns seven stations and sells ads on four more. Likewise, in Salt Lake City, it owns seven stations and sells ads on four additional ones.

'Absurd Result'

Clear Channel's tactics have drawn a handful of complaints to the Federal Communications Commission, which en-

forces the ownership limits. Jefferson-Pilot Corp., the No. 2 radio operator in San Diego, with four stations, has filed a petition criticizing Clear Channel's control of its Mexican frequencies and arguing that the foreign-station exemption has created "an anomalous and absurd result, which permits the very market dominance Congress sought to preclude" with ownership caps. Jefferson-Pilot has tried unsuccessfully to take over the operations of a Mexican station but doesn't control any foreign stations. It has asked the FCC to reconsider how it accounts for foreign signals. The FCC hasn't acted on the complaints against Clear Channel.

Clear Channel says the complaints are without merit and that all of its operations, including the San Diego stations, pass regulatory muster. The company's acquisitions are all approved by the FCC, and larger deals have been cleared by the Justice Department's antitrust division, as well. "We're a bigger company; we're a bigger target for people," says Clear Channel President Mark Mays. "There's no question that our success is rubbing some of our competitors wrong."

Clear Channel's big move into San Diego came in 1999, when it bought Jacor Communications Inc., which had been amassing stations there for four years. Last year, Clear Channel put most of its stations into a glass-plated office building in north San Diego, which features 33 studios and a small stage for live performances.

Clear Channel can throw its weight around in San Diego in a variety of ways. It can secure sole sponsorship of choice concerts and exclusive in-house appearances by sought-after artists. For the last several years, the company has essentially locked up radio promotion of San Diego's popular "Street Scene," an annual outdoor music festival. In return for heavy coverage on Clear Channel's family of stations, the festival's organizers have promised not to work with stations that compete against any of Clear Channel's formats—which means virtually everyone.

The festival must get Clear Channel's permission to grant the company's competitors free tickets or any exposure at the event, according to Tim Hackett, whose company oversees marketing and public relations for Street Scene. The only exceptions made to that rule are for certain public and Spanish-language stations, he says.

One station, Viacom Inc.'s classic-rock KPLN, was so determined to give away tickets to Street Scene several years ago that it went out and bought them. The festival organizers "had to politely say, 'This is

Legal Quirks Help a Radio Empire

an exclusive deal with Clear Channel,"
and ask KPLN to stop the giveaway, says
Mr. Hackett. Festival organizers and
KPLN don't dispute this account.

'All Seven Courses'

Advertisers in San Diego say that Clear Channel has the muscle to seek exclusive or near-exclusive deals that keep ad buyers from appearing on other stations. "They want all seven courses of the meal," says Bob Gavin, president of Gavin & Gavin Advertising Inc., a local firm. "They don't want all six courses and then have you go across the street for dessert."

Late last year, when Mr. Gavin was placing ads valued at about \$400,000 for a hair-salon chain, he says he considered Clear Channel, as well as Via-com's KPLN and Jefferson-Pilot's KSON, a country station. To grab a bigger share of the \$400,000, Clear Channel offered a bonus, Mr. Gavin says: a contest for a trip to Las Vegas in which contestants had to mail in a postcard obtained from one of the hair salons. Clear Channel also threw in free promotions of the contest on several of its stations valued at a total of \$40,000. Mr. Gavin says he took the deal and avoided KPLN. He did buy a few spots on the Jefferson-Pilot country station because Clear Channel didn't yet own one. These days, he says he would probably go exclusively with Clear Channel, since it now operates its own country station—but hasn't done so yet.

Ad Anxiety

Clear Channel has tremendous leverage with advertisers trying to reach certain audiences. Those targeting English-speaking teen radio listeners have few other options in San Diego. Clear Channel owns the city's leading pop station, its top hip-hop station and its most popular rock and alternative-rock stations. "You are forced to have to deal with Clear Channel" to reach teenagers, says John Masters, president of Solomon Friedman Entertainment Inc., a San Diego-based ad agency that frequently places local movie ads. Mr. Masters says Clear Channel hasn't taken advantage of its dominance to push up its rates, but he fears that will happen in the future.

Clear Channel's Mr. Glickenhause says that "it wouldn't be prudent" for his company to "take advantage of an advertiser," because that would alienate a potential source of revenue.

Clear Channel's rock and sports stations give it a particularly strong grip on male listeners, and the company seeks to be paid for that strength, advertisers say. Tina Greenler, a radio-ad buyer with Ze-

nith Media, says she was surprised recently when Clear Channel gave her different rates for batches of Lexus ads that would run for similar amounts of time at the same time of day. The only difference was that one batch aimed primarily at men, while the other targeted adults generally. Clear Channel demanded about 25% more per ratings point for men, compared with the all-adult batch, she says. Ms. Greenler, whose employer is a joint venture of Publicis Groupe SA and Cordiant Communications Group PLC, says that in other markets, she always has received the same rate on a per-listener basis, regardless of demographic characteristics.

Clear Channel has "this dominance, and they have the opportunity to do whatever they want," she says. In the end, she says she had no choice but to buy the male-focused ads from Clear Channel, although she used competitors for the spots aimed at both genders.

Clear Channel's Mr. Glickenhause says the different rates in this instance—and ad rates generally—reflect nothing more than "supply-and-demand pricing." He adds, "We don't force people to use us."

U.S. Manufacturing Shows Contraction; Chain Stores Weaken

Continued From Page A2

Reserve officials appear preoccupied with the risk that the recovery could go off course. When they met last week, they declared that economic weakness was a greater risk than inflation and that "considerable uncertainty" persists about the recovery.

"The geopolitical context and the shock of accounting and corporate governance failures, so soon after last year's downturn, certainly have added to the uneasiness about the course of the economy," Federal Reserve Bank of Chicago President Michael Moskow said in a speech yesterday. The Fed left its short-term interest-rate target at 1.75% last week but investors expect it will cut that target by a quarter of a percentage point when policy makers meet again Nov. 6, if not sooner.

—Greg Ip

contributed to this article.



Journal Link: See the latest economic reports in the Online Journal at WSJ.com/JournalLinks.

sion
suc
tre:
bitt
FD.
mei
bef
mai
thei
ple,
its
the

"the
Fra
the
Dev
Was
his
moc

Par

Ea
On

I
Vegi
oult
Las
mina
and
pects
items
from
of 17
pairn
of a
Tropi
to 12
tion
charg
an es
comp
ness
slot b
the y
loss
Park
est in

Delta

AT
ber tr
nue p
year e
day sl
11 att
Cor
sults,
billion
nue-pa
ger flo
Loa
filled, 1
from 5
age poi